

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGR-10 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 CIEP-02 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 /059 W

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R 160940Z DEC 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7459

INFO AMEMBASSY BRUSSELS

AMEMBASSY BONN

AMEMBASSY DUBLIN

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

UNCLAS SECTION 01 OF 02 LONDON 19277

PASS AGRICULTURE

E.O.

E.O. 11652: N/A

SUBJECT: ANXIOUS UK REACTION TO EC COMMISSION 1976-77

FARM PRICE PROPOSALS

REF: EC BRUSSELS 11110

SUMMARY: EC COMMISSION'S 1976-77 FARM PRICE PROPOSAL PACKAGE HAS PLEASED NEITHER HMG NOR BRITISH FARMERS. HMG IS UNHAPPY ABOUT THE SIZE OF THE AVERAGE 7 1/2 PERCENT PRICE RISE WHILE UK FARMERS, IN COMMON WITH THEIR COLLEAGUES IN COPA, BELIEVE INCREASE INSUFFICIENT. HOWEVER, BOTH HMG AND UK FARMERS ARE PARTICULARLY UPSET ABOUT PROPOSALS TO END BEEF PREMIUM PAYMENTS SYSTEM. END SUMMARY.

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1. EC COMMISSION'S FARM PRICE PROPOSALS FOR 1976-77 HAVE LARGELY FAILED TO PLEASE EITHER HMG OR BRITISH FARMERS. MOST SERIOUS CONCERN OF BOTH IS PROPOSAL TO BRING TO AN END THE UK'S SYSTEM OF CASH SUBSIDIES OR PREMIUM TO BEEF PRODUCERS AT TIMES WHEN MARKET PRICE OF BEEF FALLS BELOW THE GUARANTEED LEVEL. THE SYSTEM WHICH BRITAIN HAS BEEN OPERATING IS CLOSELY AKIN TO THE FORMER GUARANTEED PRICE-DEFICIENCY PAYMENTS SYSTEM WHICH WAS THE TRADITIONAL METHOD OF AGRICULTURAL SUPPORT IN UK. BY OPERATING THE PREMIUM PAYMENTS SYSTEM ALONG SIDE AN INTERVENTION PRICE MUCH LOWER THAN ELSEWHERE IN THE EC, UK HAS MANAGED TO AVOID BUILDING UP INTERVENTION STOCKS OF BEEF. THERE WAS HOPE THROUGHOUT THE BRITISH RENEGOTIATION PROCESS BOTH BEFORE AND AFTER LAST JUNE'S REFERENDUM THAT THE BEEF PREMIUM PAYMENTS SYSTEM WOULD CONTINUE AND MIGHT BE ADOPTED BY OTHER COUNTRIES AND EVEN BE EXTENDED TO OTHER CAP COMMODITIES. MAJOR BRITISH AIM OF RESTRUCTURING THE CAP IS TO GIVE CONSUMERS BENEFITS OF LOWER PRICES WHEN PRODUCTION GOES INTO SURPLUS.

2. COMMISSION'S PROPOSALS TO FIRST CUT PREMIA AND TO PHASE THEM OUT ALTOGETHER LATER IN 1976-77 IS HIGHLY EMBARRASSING FOR HMG WHICH HAS REPEATEDLY EXPRESSED CONFIDENCE THAT THE SYSTEM WOULD BE RETAINED. THE UK BEEF SUPPORT SCHEME WAS HELD UP BY PRO-EC MINISTERS IN REFERENDUM CAMPAIGN AS PROOF THAT THE CAP COULD BE AMENDED TO TAKE INTO ACCOUNT INTERESTS OF CONSUMERS AND THAT COMMODITY MOUNTAINS COULD BE PREVENTED. IF SYSTEM IS NOW TERMINATED, ANTI-EC MPS' POINT THAT DENTS IN THE CAP GIVEN TO UK IN 1975 WERE NO MORE THAN TEMPORARY SOPS TO BRITISH CONSUMER INTERESTS WILL BE VINDICATED.

3. NFU IS EQUALLY OPPOSED TO ENDING OF PREMIA PAYMENTS. NFU INSIST THAT ONLY DIRECT SUBSIDIES GIVE THEM EFFECTIVE PRICE GUARANTEES.

4. ON OTHER POINTS, HMG AND NFU ARE EQUALLY UNHAPPY THOUGH FOR DIAMETRICALLY OPPOSED REASONS. HMG IS FEARFUL OF INFLATION EFFECT OF FURTHER RISE IN FOOD PRICES AT A TIME WHEN THE 6 POUNDS PAY LIMIT AND SLOWING DOWN OF OTHER PRICE INCREASES IS HELPING TO COMBAT INFLATION

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WHICH THE GOVERNMENT AIMS TO CUT TO AS LOW AS 10-12
PERCENT BY MID-1976.

5. NFU PRESIDENT, SIR HENRY PLUMB, WHO IS ALSO
PRESIDENT OF COPA, SAID THAT THE 7 1/2 PERCENT AVERAGE
RISE IN THE PACKAGE IS INADEQUATE. PLUMB SAID, "AT THIS
TIME OF GREAT UNCERTAINTY ABOUT THE WORLD FOOD SUPPLY
CONDITION, PARTICULARLY IN VIEW OF REPORTS OF A MASSIVE
FAILURE OF THE USSR GRAIN HARVEST, IT IS OF PARAMOUNT
IMPORTANCE THAT NOTHING SHOULD BE DONE THAT WILL DIS-
COURAGE THE PRODUCTION OF FOOD IN THE EC."

6. PRESS COMMENT HERE TODAY TENDS TO THE VIEW THAT
COMMISSIONER LARDINOIS HAS THROWN THE BEEF PREMIUM
PAYMENTS SYSTEM INTO THE RING AS A BATTLE TACTIC TO BE
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USED IN ORDER TO GET HMG ASSENT TO PRICE PACKAGE. IT IS BELIEVED THAT UK AGRICULTURE MINISTER PEART HAS SO MUCH POLITICAL INVESTMENT IN THE BEEF SYSTEM THAT HE WILL YIELD ON PRICES IN ORDER TO KEEP IT IN THE HARD BARGAINING AHEAD.

7. THERE IS, HOWEVER, ONE ASPECT OF THE EC PROPOSALS WHICH PLEASES THE UK VERY MUCH. THIS IS THE SUGGESTED RISE FROM 25 PERCENT TO 40 PERCENT IN THE GRANT WHICH SUBSIDISES LIVESTOCK PRODUCTION IN HILL AREAS. UK HILL FARM SUBSIDIES CURRENTLY RUN AT ABOUT 50 MILLION POUNDS PER YEAR. A RISE OF 40 PERCENT IN THE REIMBURSEMENT FROM EC FUNDS WOULD ENABLE HMG TO PAY HILL FARMERS A FURTHER 20 MILLION POUNDS WITHOUT ANY RISE IN UK EXPENDITURE.

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